

Why China needs the outside world more than the world needs China

Jul 2 2012

*The rise of China preoccupies the global media, which regularly carry articles suggesting that it is using its financial resources to 'buy the world'. Is there any truth to this idea? Or is this just scaremongering by Western commentators who have little interest in a balanced presentation of China's role in the global political economy? **Kent Deng** recommends **Is China Buying the World?** for its breath-taking depth into the very heart of the global economic system that we currently live in.*



Is China Buying the World? Peter Nolan. Polity Press. May 2012.

As China's economy has been going from strength to strength in the past three decades, there is a popular perception that China is buying up everything under the sun in this whole world – minerals, companies, treasury bonds, and real estates. Intuitively, this seems to make sense after China flooded the globe with cheap manufactures and accumulated the largest national foreign reserves in the world. In a zero-sum eye, as China becomes wealthier so fast, something has to give from the rest of the world.

This new book joins this debate with breath-taking depth and width, probing the very heart of the global economic system that we currently live in. Armed with his tremendous knowledge about China, [Peter Nolan](#), the Sinyi Professor of Chinese Management at the University of Cambridge, shows us two multi-facade parallel universes: the well-entrenched high-income countries (G7) that host global multi-national firms versus fast-rising China. The author convincingly unveils the real party that is buying the world. You guessed it: that party is anyone but China.

On the one hand, the author argues that there have been three revolutions in the G7 in the recent decades – a financial revolution, a business structural revolution and a technological revolution. By feeding each other, these revolutions have created unprecedented synergy like none the world has ever seen. Such synergy has in turn empowered multi-national 'industrial majors' and 'systems integrators' whose weights dwarf any national firm or even a national economy. Globally, these high-income economies have had everything at their disposal, including cheap labour of the



developing world. In this context, it becomes natural for the G7 top dogs to advocate the Washington Consensus to bring more market competition to all corners of the world, China included. Nolan's pageantry of "who's who in the world" that runs through the book serves that purpose neatly.

On the other hand, the author uses China, whose growth speed, scale and scope never fail to stun us since the 1980s, as the best practice across the developing world in creating a large, open, and vibrant economy within one generation. However, according to Nolan, what China has done so far, either quantitatively or qualitatively, has been riding (although not entirely 'freely') on the high-income economies regarding capital investment, technology upgrading, and commodity exports. The stage is now set.

Painstakingly, Nolan reveals how global winners are dynamically produced these days in the new capitalist global system. The secret of the formation and growth of the new-breed multi-national 'industrial majors' and 'systems integrators', he argues, lies in the good-old principle of market demand, supply, and shares. Firstly, thanks to the rise of the global middle class whose purchasing power has been rising steadily after WWII, the demand horizon of the world has been stretched outwards. As long as desirable products are invented, they sell. Secondly, there has been a major cultural change on the supply side of the market which can be boiled down to three aspects: (1) massive business mergers and acquisitions to multiply the firm's size, (2) massive input to generate better technology (R&D), and (3) cut-throat competition between these firms to stay on the top of the global product value chain. The supply-side competition between these firms has now become so formidable that it has formed a lofty barrier for new comers even from the G7 club, let alone firms from China. Each aspect requires astronomical amount of hard cash and world-class talent in business management and product development.

Here, the author's message is simply that although post-Mao China qualifies as a hare in the race for modernity, the high-income G7 and their 'industrial majors' and 'systems integrators' are no turtles, despite their current economic downturn.

In comparison, the growth model of China is in a different league and much easier to duplicate elsewhere. The influence of China's FT500-listed firms is domestically confined. Some lesser 'workshops of the world' are mushrooming across the globe to share China's success, rolling out cheap labour-intensive manufactures. They rival China head on.

Inevitably, at this point one still sees a paradox: if China has been so successful, why can it not create any 'industrial major' and 'systems integrator'? The author tells us that these firms are already on China's soil but they belong to the West. *Via* foreign direct investment, a great many 'industrial majors' and 'systems integrators' have not only deeply embedded inside China's national champion sectors like banking and aviation but also occupied commanding heights there. Thus, Nolan suggests, in the current global matrix of interdependence, China needs the outside worlds

more than the world needs China.

In addition, to buy up large firms in the G7 is not always feasible: some G7 management funds are equivalent to the aggregate GDP of the entire world. Many global heavy weights are already too big for China to gobble up even if China is fully prepared to empty its chest. On the contrary, it is these companies that are able to buy the world, China included.

Nolan further points out that in the current asymmetrical world China has not yet been successful in making inroads in reciprocal investing in high-income economies or multi-national 'industrial majors' and 'systems integrators' due to an array of financial, technical, cultural and political incompatibilities which form 'insurmountable challenges' for China and its firms. In particular, issues of the political economy nature pop up frequently. For example, the 'Beijing Consensus' that openly promotes economic nationalism and authoritarian monopoly does not get down well with the signatories of the Washington Consensus. China's party-state and its political and economic opaque arouse suspicion regarding the true intention of the ruling elite, not to mention China's 'cowboy sector' (*shanzhai*) that routinely violates intellectual property rights whereby profiting on foreign designs. Bear in mind also China's ruling party has a long list of shameful records, ranging from the Great Leap Famine (1959–61), Cultural Revolution (1966–76), Tiananmen Square Massacre (1989), to internal residence control (*hukou*), one-child policy, a lack of rule of law, run-away official corruption, and rampant socio-economic inequality. Outside investors and business partners will naturally worry about China's political stability even if they are completely content that their business will disproportionately benefit the privileged few there.

Finally, regarding China's future, Nolan concludes that all the *per capita* parameters show a different picture: the economy has not developed careful enough and fast enough to avoid the pitfalls of 'growth at the expense of the environment' and 'becoming grey before getting wealthy'. China's mounting domestic clear-up bills for its environmental holocaust and looming welfare burden from its fast aging population will overshadow its economic future.

I strongly recommend this book to BSc/BA and MSc/MA students of economics, economic history, management, business studies, China studies and Asian studies. Readers from the current affairs circle, government departments, business communities and NGOs will find it a useful source material in understanding China, too.

Dr. Kent Deng is Reader in Economic History at the LSE and FRHistS. He teaches economic changes, growth and development in East and Southeast Asia from *circa* 1500 to the present day. He publishes widely on China's very long-term history over two millennia, including the literati, peasantry, merchants, artisans, demography, currencies, property rights, taxation, knowledge transfer, market expansion, reforms and state governance. His most recent book, *China's Political Economy in Modern Times: Changes and Economic Consequences, 1800–2000* (Routledge, 2011)

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